

**RANCHO SANTIAGO
COMMUNITY COLLEGE DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2015

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Rancho Santiago Community College District
Santa Ana, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of Rancho Santiago Community College District (the District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the District as of June 30, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principles

As discussed in Notes 2 and 14 to the financial statements, in 2015, the District adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the Management's Discussion and Analysis on pages 5 through 15, the Schedule of Other Postemployment Benefits (OPEB) Funding Progress on page 62, the Schedule of the District's Proportionate Share of the Net Pension Liability on page 63, and the Schedule of District Contributions on page 64 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information listed in the Table of Contents, including the Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying supplementary information, including the Schedule of Expenditures of Federal Awards, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Varrinck, Trine, Day & Co., LLP

Rancho Cucamonga, California

December 3, 2015



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USING THIS ANNUAL REPORT

The purpose of this annual report is to provide readers with information about the activities programs and financial condition of Rancho Santiago Community College District (the District) as of June 30, 2015. The report consists of three basic financial statements: the Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows and provides information about the District as a whole. This section of the annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2015. Please read it in conjunction with the District's financial statements, which immediately follow this section. Responsibility for the completeness and accuracy of this information rests with the District management.

OVERVIEW OF THE FINANCIAL STATEMENTS

Rancho Santiago Community College District's financial statements are presented in accordance with Governmental Accounting Standards Board (GASB) Statements No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* and No. 35, *Basic Financial Statements - and Management Discussion and Analysis - for Public College and Universities*. These statements allow for the presentation of financial activity and results of operations which focuses on the District as a whole. The entity-wide financial statements present the overall results of operations whereby all of the District's activities are consolidated into one total versus the traditional presentation by fund type. The focus of the Statement of Net Position is designed to be similar to the bottom line results of the District. This statement combines and consolidates current financial resources with capital assets and long-term obligations. The Statement of Revenues, Expenses, and Changes in Net Position focuses on the costs of the District's operational activities with revenues and expenses categorized as operating and nonoperating, and expenses are reported by natural classification. The Statement of Cash Flows provides an analysis of the sources and uses of cash within the operations of the District.

The California Community Colleges Chancellor's Office has recommended that all State community colleges follow the Business-Type Activity (BTA) model for financial statement reporting purposes.

BOARD OF TRUSTEES:

Claudia C. Alvarez • Arianna P. Barrios • John R. Hanna • Lawrence R. "Larry" Labrado • Jose Solorio • Nelida Mendoza Yanez • Phillip E. Yarbrough

CHANCELLOR:

Raúl Rodríguez, Ph.D.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

FINANCIAL HIGHLIGHTS

The Annual Report consists of three basic financial statements that provide information on the District as a whole and will be discussed below:

- The Statement of Net Position
- The Statement of Revenues, Expenses, and Changes in Net Position
- The Statement of Cash Flows

THE DISTRICT AS A WHOLE

Statement of Net Position

The Statement of Net Position presents the assets, liabilities, and net position of the District as of the end of the fiscal year and is prepared using the accrual basis of accounting, which is similar to the accounting method used by most private-sector organizations. The Statement of Net Position presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net position (assets minus liabilities), presenting the reader a fiscal snapshot of the District.

From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of the District. Readers are also able to determine how much the District owes vendors and employees. Finally, the Statement of Net Position provides a picture of the net position and its availability for expenditure by the District.

The difference between total assets and total liabilities (net position) is one indicator of the current financial condition of the District; the change in net position is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allocation for depreciation expense.

The net position (formerly called fund balance) is divided into three major categories. The first category, net investment in capital assets, provides the equity amount in property, plant, and equipment owned by the District. The second category is expendable restricted net position; this net position is available for expenditure by the District, but must be spent for purposes as determined by external entities and/or donors that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net position that is available to the District for any lawful purpose of the District.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

The Statement of Net Position as of June 30, 2015 and 2014, is summarized below:

Table 1

(Amounts in thousands)

	2015	2014 (as restated)	Change	Percentage Change
ASSETS				
Current Assets				
Cash and investments	\$ 249,083	\$ 153,122	\$ 95,961	62.67%
Accounts receivable	11,710	21,687	(9,977)	-46.00%
Other current assets	2,083	2,719	(636)	-23.39%
Total Current Assets	262,876	177,528	85,348	48.08%
Capital Assets (net)	423,088	412,219	10,869	2.64%
Total Assets	685,964	589,747	96,217	16.31%
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	6,487	13,211	(6,724)	-50.90%
Current year pension contribution	10,146	9,249	897	9.70%
Total Assets and Deferred Outflows	\$ 702,597	\$ 612,207	\$ 90,390	14.76%
Current Liabilities				
Accounts payable and accrued liabilities	\$ 41,881	\$ 23,624	\$ 18,257	77.28%
Current portion of long-term liabilities	16,688	9,211	7,477	81.17%
Total Current Liabilities	58,569	32,835	25,734	78.37%
Noncurrent liabilities	583,077	554,237	28,840	5.20%
Total Liabilities	641,646	587,072	54,574	9.30%
DEFERRED INFLOWS OF RESOURCES				
Difference between projected and actual earnings on pension plan investments	33,366	-	33,366	-
Net change in proportionate share of net pension liability	1,264	-	1,264	0.00%
Total Liabilities and Deferred Inflows	676,276	587,072	89,204	9.30%
NET POSITION				
Net investment in capital assets	109,476	111,418	(1,942)	-1.74%
Restricted	67,445	49,690	17,755	35.73%
Unrestricted	(150,600)	(135,973)	(14,627)	10.76%
Total Net Position	26,321	25,135	1,186	4.72%
Total Liabilities, Deferred Inflows, and Net Position	\$ 702,597	\$ 612,207	\$ 90,390	14.76%

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

Fiscal year ended 2015 compared to 2014:

- Total assets increased overall by approximately \$96.2 million. The majority of this increase is within Cash and Investments and relates specifically to the issuance of new bonds under Measure Q during this fiscal year totaling \$70.6 million in addition to the State fully buying down the remaining cash deferrals.
- Due to the provisions of GASB Statement No. 68, described in detail in Note 2 and Note 12 of the financial statements, the District's net position has been adjusted to reflect its "proportionate share" of California Public Employees' Retirement System (CalPERS) and California State Teachers' Retirement System (CalSTRS) net pension liabilities as a reduction to net position. Though this is an accounting requirement, districts cannot fund these pension liabilities more than required by CalPERS and CalSTRS. By backing out this accounting shift, the District's total net position would be reported as \$170,344,527 at June 30, 2015, an increase of \$927,275 over the previous year.

Statement of Revenues, Expenses, and Changes in Net Position

Changes in total net position are presented on the Statement of Revenues, Expenses, and Changes in Net Position. The purpose of this statement is to present the operating and nonoperating revenues earned whether received or not by the District, the operating and nonoperating expenses incurred whether paid or not by the District, and any other revenues, expenses, gains and/or losses earned or incurred by the District. Thus, this Statement presents the District's results of operations.

Generally, operating revenues are earned for providing goods and services to the various customers and constituencies of the District. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues and to fulfill the mission of the District. Nonoperating revenues are those received or pledged for which goods and services are not provided; for example, State appropriations while budgeted for operations, are considered nonoperating revenue according to generally accepted accounting principles because they are provided by the legislature to the District without the legislature directly receiving commensurate goods and services for those revenues.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

Table 2

(Amounts in thousands)

	2015	2014	Change	Percentage Change
Operating Revenues				
Tuition and fees	\$ 13,931	\$ 12,807	\$ 1,124	8.78%
Auxiliary sales and charges	662	660	2	0.30%
Total Operating Revenues	<u>14,593</u>	<u>13,467</u>	<u>1,126</u>	<u>8.36%</u>
Operating Expenses				
Salaries and benefits	154,257	146,954	7,303	4.97%
Supplies and maintenance	46,203	37,994	8,209	21.61%
Financial aid	25,783	25,275	508	2.01%
Depreciation	16,026	13,201	2,825	21.40%
Total Operating Expenses	<u>242,269</u>	<u>223,424</u>	<u>18,845</u>	<u>8.43%</u>
Loss on Operations	<u>(227,676)</u>	<u>(209,957)</u>	<u>(17,719)</u>	<u>8.44%</u>
Nonoperating Revenues (Expenses)				
State apportionments	82,772	80,877	1,895	2.34%
Property taxes	48,342	46,370	1,972	4.25%
Federal grants	36,977	36,998	(21)	-0.06%
State grants	30,932	20,231	10,701	52.89%
State taxes and other revenue	7,499	6,018	1,481	24.61%
Net interest expense	(18,394)	(17,140)	(1,254)	7.32%
Other nonoperating revenues	<u>10,868</u>	<u>10,468</u>	<u>400</u>	<u>3.82%</u>
Total Nonoperating Revenue (Expenses)	<u>198,996</u>	<u>183,822</u>	<u>15,174</u>	<u>8.25%</u>
Other Revenues				
State and local capital income	<u>29,865</u>	<u>21,384</u>	<u>8,481</u>	<u>39.66%</u>
Net Change in Net Position	<u>\$ 1,185</u>	<u>\$ (4,751)</u>	<u>\$ 5,936</u>	<u>124.94%</u>

Fiscal year ended 2015 compared to 2014:

- Tuition and fees increased due to an additional 220 full-time equivalent resident students served during the year along with approximately six hundred thousand in increased tuition from nonresident students.
- State grants revenue increased by nearly 53 percent related to several new grants received during the year including Sector Navigator, CTE and OC Teacher Pathways as well as large increases to ongoing categorical programs such as Student Success and Support Program and Student Equity allocated in the State budget act.
- Corresponding to the increases in grant revenue, expenses increased as well to fulfill the intended outcomes, especially in the area of supplies and maintenance increasing by almost 22 percent.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

In accordance with requirements set forth by the California Community Colleges Chancellor's Office, the District reports operating expenses by object code. Operating expenses by functional classification are as follows:

Table 3

Year ended June 30, 2015:

(Amounts in thousands)

	Salaries and Benefits	Supplies, Material, and Other Expenses and Services	Student Financial Aid	Depreciation	Total
Instructional activities	\$ 69,729	\$ 5,371	\$ -	\$ -	\$ 75,100
Academic support	11,279	203	-	-	11,482
Student services	30,750	1,769	-	-	32,519
Plant operations and maintenance	4,880	3,283	-	-	8,163
Instructional support services	25,740	10,999	-	-	36,739
Community services and economic development	2,254	521	-	-	2,775
Ancillary services and auxiliary operations	8,582	4,534	-	-	13,116
Student aid	-	-	25,783	-	25,783
Physical property and related acquisitions	1,043	19,523	-	-	20,566
Depreciation	-	-	-	16,026	16,026
Total	<u>\$ 154,257</u>	<u>\$ 46,203</u>	<u>\$ 25,783</u>	<u>\$ 16,026</u>	<u>\$ 242,269</u>

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

Year ended June 30, 2014:

(Amounts in thousands)

	Salaries and Benefits	Supplies, Material, and Other Expenses and Services	Student Financial Aid	Depreciation	Total
Instructional activities	\$ 68,529	\$ 3,975	\$ -	\$ -	\$ 72,504
Academic support	10,596	193	-	-	10,789
Student services	28,902	1,446	-	-	30,348
Plant operations and maintenance	4,685	2,973	-	-	7,658
Instructional support services	22,580	6,598	-	-	29,178
Community services and economic development	2,349	608	-	-	2,957
Ancillary services and auxiliary operations	8,707	3,650	-	-	12,357
Student aid	-	-	25,275	-	25,275
Physical property and related acquisitions	606	18,551	-	-	19,157
Depreciation	-	-	-	13,201	13,201
Total	<u>\$ 146,954</u>	<u>\$ 37,994</u>	<u>\$ 25,275</u>	<u>\$ 13,201</u>	<u>\$ 223,424</u>

Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the fiscal year. This Statement also helps users assess the District's ability to generate positive cash flows, meet obligations as they come due, and the need for external financing.

The Statement of Cash Flows is divided into five parts. The first part reflects operating cash flows and shows the net cash used by operating activities of the District. The second part details cash received for nonoperating, noninvesting, and noncapital financing purposes. The third part shows cash flows from capital and related financing activities and deals with the cash used for the acquisition and construction of capital and related items. The fourth part provides information from investing activities and the amount of interest received. The last section reconciles the net change in cash and cash equivalents to the ending cash and cash equivalents balance reflected on the Statement of Net Position.

Statement of Changes in Cash Position

- Operating activities consist of cash receipts from enrollment fees, grants and contracts, and cash payments for salaries, benefits, supplies, utilities, and other items related to the instructional program.
- Noncapital financing activities are primarily State apportionment and property taxes.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

- Capital financing activities consist of purchases of capital assets (land, buildings, and equipment) and bond interest payments and receipts from Federal and State grants for capital purposes, as well as property tax revenue for bond repayments.
- Cash from investing activities is interest earned on investments through the Orange County Investment Pool and the Local Agency Investment Fund (LAIF).

Table 4

(Amounts in thousands)

	2015	2014	Change
Cash Provided by (Used in)			
Operating activities	\$ (194,026)	\$ (187,667)	\$ (6,359)
Noncapital financing activities	229,857	209,516	20,341
Capital financing activities	59,314	(34,400)	93,714
Investing activities	816	553	263
Net Decrease in Cash	95,961	(11,998)	107,959
Cash, Beginning of Year	153,122	165,120	(11,998)
Cash, End of Year	<u>\$ 249,083</u>	<u>\$ 153,122</u>	<u>\$ 95,961</u>

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Fiscal year ended 2015 compared to 2014:

As of June 30, 2015, the District had \$573.6 million in capital assets, less \$150.5 million of accumulated depreciation for net capital assets of \$423.1 million. The District continues to work on the facilities projects that are part of the \$337 million bond program under Measure E and began working on facilities projects as part of the \$198 million bond program under Measure Q, issuing \$70.6 million in bonds midyear. The District spent approximately \$26.9 million on capital assets in 2014-2015, the majority of which relate to bond proceeds. Depreciation charges totaled \$16.0 million in 2014-2015. We present more detailed information regarding our capital assets in Note 6 of the financial statements.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

Table 5

(Amounts in thousands)

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Land and construction in progress	\$ 175,179	\$ 20,085	\$ 85,765	\$ 109,499
Buildings and improvements	301,392	88,975	-	390,367
Furniture and equipment	71,603	3,603	1,522	73,684
Subtotal	548,174	112,663	87,287	573,550
Accumulated depreciation	135,955	16,026	1,519	150,462
	<u>\$ 412,219</u>	<u>\$ 96,637</u>	<u>\$ 85,768</u>	<u>\$ 423,088</u>

Obligations

Fiscal year ended 2015 compared to 2014:

At June 30, 2015, the District had \$599.8 million in outstanding long-term liabilities compared to \$563.4 million at June 30, 2014. The net increase of \$36.3 million includes a net increase of \$69.0 million related to the issuance and payment of General Obligation Bonds during the fiscal year and a \$1.3 million increase in the Other Postemployment Benefits obligation in accordance with the most recent actuarial study of Retiree Health Liabilities dated April 25, 2014. These increases were offset by a decrease of \$34.0 million to the District's net pension obligation. We present more detailed information regarding our long-term obligations in Note 9 of the financial statements.

Table 6

(Amounts in thousands)

	Balance Beginning of Year (as restated)	Additions	Deletions	Balance End of Year
General obligation bonds	\$ 347,701	\$ 81,562	\$ 12,551	\$ 416,712
Claims payable	400	-	-	400
Compensated absences	5,183	-	91	5,092
Load banking	4,263	119	-	4,382
Net OPEB obligation	52,370	7,567	6,297	53,640
Aggregate pension obligation	153,531	-	33,992	119,539
Total Long-Term Obligations	<u>\$ 563,448</u>	<u>\$ 89,248</u>	<u>\$ 52,931</u>	<u>\$ 599,765</u>
Amount due within one year				<u>\$ 16,688</u>

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

BUDGETARY HIGHLIGHTS

At the time the 2015-2016 budget was developed, the following assumptions were made:

- The 2015-2016 State Cost of Living Allowance (COLA) increase was budgeted at 1.02 percent.
- The District budgeted for two new ongoing allocations from the State for enhanced funding for Career Development and College Preparation (CDCP) courses at the credit rate totaling an estimate of \$7.9 million and a Base Allocation increase estimated at \$6.8 million.
- The District budgeted \$23.9 million for estimated Education Protection Account (EPA) funding.
- The District targeted an increase to 29,263 Full-Time Equivalent Students served, however did not budget for any growth revenue.
- The District also budgeted an estimated \$15.4 million from a one-time State allocation for outstanding Mandated Cost reimbursement.
- The full-time Faculty Obligation Number is estimated at 346.8. The District therefore budgeted for 14 new full-time faculty hires to meet this obligation. In addition, the State allocated funds for hiring additional full-time faculty and the District budgeted for 16 faculty to meet this obligation.
- The District's budget is balanced without the need to use a portion of the 2014-2015 unrestricted ending balance stabilization funds.

ECONOMIC FACTORS

- The financial position of the District is closely tied to that of the State of California. The District receives over 70 percent of its combined General Fund revenues through State apportionments, local property taxes including redevelopment agency allocations, and the Education Protection Account (EPA). These sources along with student paid enrollment fees essentially make up the District's general apportionment, the main funding support for California community colleges.
- There is a concern for community colleges in that the shift of State support to the EPA funding, which is temporarily keeping budgets afloat, partially expire in 2016 and fully expire in 2018, along with the dissolution of redevelopment agencies and the related pass through funding, creates uncertainty as to how these revenues will be made up in the future.
- Management continues to closely monitor the State budget information and operating costs of the District and will maintain a close watch over resources to ensure financial stability and retain reserve levels required by Board Policy and the State Chancellor's Office.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact Rancho Santiago Community College District, attention Vice Chancellor, Business Operations and Fiscal Services, 2323 North Broadway, Santa Ana, CA 92706, (714) 480-7340.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET POSITION - PRIMARY GOVERNMENT JUNE 30, 2015

ASSETS

Current Assets

Cash and cash equivalents - unrestricted	\$ 4,817,150
Cash and cash equivalents - restricted	70,689
Investments - unrestricted	90,451,696
Investments - restricted	153,743,283
Accounts receivable	11,614,836
Student loans receivable	95,274
Due from fiduciary funds	121,587
Prepaid expenses	386,715
Inventories	1,575,207
Total Current Assets	262,876,437

Noncurrent Assets

Nondepreciable capital assets	109,498,693
Depreciable capital assets, net of depreciation	313,588,935
Total Noncurrent Assets	423,087,628
TOTAL ASSETS	685,964,065

DEFERRED OUTFLOWS OF RESOURCES

Deferred charge on refunding	6,487,265
Current year pension contribution	10,145,560
TOTAL DEFERRED OUTFLOW OF RESOURCES	16,632,825

LIABILITIES

Current Liabilities

Accounts payable	15,624,628
Accrued interest payable	4,911,453
Due to fiduciary funds	532,209
Unearned revenue	20,812,498
Compensated absences payable - current portion	743,051
Bonds payable - current portion	15,945,000
Total Current Liabilities	58,568,839

Noncurrent Liabilities

Claims liability	400,000
Compensated absences payable - noncurrent portion	4,349,320
Bonds payable - noncurrent portion	400,766,860
Aggregate net pension obligation	119,539,466
Other long-term liabilities - noncurrent portion	58,021,757
Total Noncurrent Liabilities	583,077,403
TOTAL LIABILITIES	641,646,242

DEFERRED INFLOWS OF RESOURCES

Net change in proportionate share of net pension liability	1,263,805
Difference between projected and actual earnings on pension plan investments	33,366,267
TOTAL DEFERRED INFLOW OF RESOURCES	34,630,072

NET POSITION

Net investment in capital assets	109,475,883
Restricted for:	
Debt service	22,845,912
Capital projects	40,515,117
Educational programs	4,067,643
Other activities	15,913
Unrestricted	(150,599,892)
TOTAL NET POSITION	\$ 26,320,576

The accompanying notes are an integral part of these financial statements.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - PRIMARY GOVERNMENT FOR THE YEAR ENDED JUNE 30, 2015

OPERATING REVENUES

Student Tuition and Fees	\$ 28,865,720
Less: Scholarship discount and allowance	(14,934,698)
Net tuition and fees	<u>13,931,022</u>

Auxiliary Enterprise Sales and Charges

Other Operating Revenues	<u>662,398</u>
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TOTAL OPERATING REVENUES

14,593,420

OPERATING EXPENSES

Salaries	112,841,769
Employee benefits	41,415,996
Supplies, materials, and other operating expenses and services	38,922,835
Student financial aid	25,782,791
Equipment, maintenance, and repairs	7,279,951
Depreciation	<u>16,025,920</u>

TOTAL OPERATING EXPENSES

242,269,262

OPERATING LOSS

(227,675,842)

NONOPERATING REVENUES (EXPENSES)

State apportionments, noncapital	82,771,592
Local property taxes, levied for general purposes	48,342,147
Federal grants	36,977,535
State grants	30,931,515
State taxes and other revenues	7,499,045
Investment income	849,043
Interest expense on capital related debt	(19,302,272)
Investment income on capital asset-related debt, net	58,811
Transfer from fiduciary funds	2,500
Transfer to fiduciary funds	(461,945)
Loss on disposal of capital assets	(3,435)
Other nonoperating revenue	<u>11,331,362</u>

TOTAL NONOPERATING REVENUES (EXPENSES)

198,995,898

LOSS BEFORE OTHER REVENUES AND EXPENSES

(28,679,944)

OTHER REVENUES

State revenues, capital	4,029,468
Local revenues, capital	<u>25,835,510</u>

TOTAL OTHER REVENUES

29,864,978

CHANGE IN NET POSITION

1,185,034

NET POSITION, BEGINNING OF YEAR AS RESTATED

25,135,542

NET POSITION, END OF YEAR

\$ 26,320,576

The accompanying notes are an integral part of these financial statements.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS - PRIMARY GOVERNMENT FOR THE YEAR ENDED JUNE 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 14,191,949
Auxiliary sales	662,398
Payments to or on behalf of employees	(152,839,097)
Payments to vendors for supplies and services	(30,259,017)
Payments to students for scholarships and grants	(25,782,791)
Net Cash Flows From Operating Activities	(194,026,558)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State apportionments	95,992,106
Property taxes	48,342,147
Grant and contracts	69,111,286
State taxes and other revenue	7,208,500
Other nonoperating	9,203,488
Net Cash Flows From Noncapital Financing Activities	229,857,527

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Purchase of capital assets	(26,606,320)
State revenue, capital projects	4,029,468
Local revenue, capital projects	25,771,790
Proceeds from capital debt	81,562,152
Principal paid on capital debt	(12,550,885)
Interest paid on capital debt	(12,951,167)
Interest received on capital asset-related debt	58,811
Net Cash Flows From Capital Financing Activities	59,313,849

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received from investments	815,681
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NET CHANGE IN CASH AND CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR

CASH AND CASH EQUIVALENTS, END OF YEAR

95,960,499
153,122,319
\$ 249,082,818

The accompanying notes are an integral part of these financial statements.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS - PRIMARY GOVERNMENT, Continued FOR THE YEAR ENDED JUNE 30, 2015

RECONCILIATION OF NET OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES

Operating Loss	<u>\$ (227,675,842)</u>
Adjustments to Reconcile Operating Loss to Net Cash Flows From Operating Activities:	
Depreciation expense	16,025,920
Changes in Assets, Deferred Outflows, Liabilities, and Deferred Inflows:	
Receivables	25,847
Inventories	(317,874)
Prepaid expenses and deferred charges	440,527
Accounts payable and accrued liabilities	521,790
Unearned revenue	15,913,141
Current year pension contributions	(896,318)
Deferred inflow of resources related to the net pension liability	34,630,072
Compensated absences and pension liabilities	<u>(32,693,821)</u>
Total Adjustments	<u>33,649,284</u>
Net Cash Flows From Operating Activities	<u><u>\$ (194,026,558)</u></u>

CASH AND CASH EQUIVALENTS CONSIST OF THE FOLLOWING:

Cash in banks	\$ 4,887,839
Cash in county treasury	244,044,063
Cash in Local Agency Investment Fund (LAIF)	<u>150,916</u>
Total Cash and Cash Equivalents	<u><u>\$ 249,082,818</u></u>

NONCASH TRANSACTIONS

On behalf payments for benefits	<u><u>\$ 3,186,927</u></u>
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The accompanying notes are an integral part of these financial statements.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

STATEMENT OF FIDUCIARY NET POSITION JUNE 30, 2015

	Trust	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 2,089,880	\$ 1,354,089
Investments	710	163
Accounts receivable	182,303	-
Due from primary government	532,209	-
Total Assets	2,805,102	\$ 1,354,252
DEFERRED OUTFLOWS OF RESOURCES		
Current year pension contributions	19,467	
LIABILITIES		
Accounts payable	155,379	\$ 13,119
Due to primary government	121,587	-
Due to student groups	-	1,341,133
Aggregate net pension liability	397,446	-
Total Liabilities	674,412	\$ 1,354,252
DEFERRED INFLOWS OF RESOURCES		
Difference between projected and actual earnings on pension plan investments	109,110	
NET POSITION		
Unreserved	\$ 2,041,047	

The accompanying notes are an integral part of these financial statements.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION FOR THE YEAR ENDED JUNE 30, 2015

	Trust
ADDITIONS	
Local revenues	<u>\$ 2,598,550</u>
DEDUCTIONS	
Classified salaries	640,376
Employee benefits	161,657
Books and supplies	55,829
Services and operating expenditures	1,330,441
Capital outlay	<u>183,262</u>
Total Deductions	<u>2,371,565</u>
OTHER FINANCING SOURCES (USES)	
Transfer from primary government	461,945
Transfer to primary government	<u>(2,500)</u>
Total Other Financing Sources (Uses)	<u>459,445</u>
Change in Net Position	686,430
Net Position - Beginning of Year as Restated	<u>1,354,617</u>
Net Position - End of Year	<u><u>\$ 2,041,047</u></u>

The accompanying notes are an integral part of these financial statements.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 1 - ORGANIZATION

Rancho Santiago Community College District (the District) was established in 1971 as a political subdivision of the State of California and is a comprehensive, public, two-year institution offering educational services to residents of the surrounding area. The District operates under a locally elected seven-member Board of Trustees form of government, which establishes the policies and procedures by which the District operates. The Board must approve the annual budgets for the General Fund, special revenue funds, and capital project funds, but these budgets are managed at the department level. Currently, the District operates two colleges located within Orange County. While the District is a political subdivision of the State of California, it is legally separate and is independent of other State and local governments, and it is not a component unit of the State in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The District has adopted GASB Statement No. 61, *Determining Whether Certain Organizations are Component Units*. This statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations, for which the District is not financially accountable, should be reported as component units based on the nature and significance of their relationship with the District. The three components used to determine the presentation are: providing a "direct benefit", the "environment and ability to access/influence reporting", and the "significance" criterion. The District has no component units.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities as defined by GASB Statements No. 34 and No. 35 as amended by GASB Statements No. 37, No. 38, and No. 39. This presentation provides a comprehensive entity-wide perspective of the District's assets, liabilities, activities, and cash flows and replaces the fund group perspective previously required. Accordingly, the District's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. The significant accounting policies followed by the District in preparing these financial statements are in accordance with accounting principles generally accepted in the United States of America as prescribed by GASB. Additionally, the District's policies comply with the California Community Colleges Chancellor's Office *Budget and Accounting Manual*. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All material intra-agency and intra-fund transactions have been eliminated.

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are classified as operating revenues. These transactions are recorded on the accrual basis when the exchange takes place. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, operating revenues consist primarily of student fees.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include State apportionments, property taxes, certain Federal and State grants, entitlements, and donations. Property tax revenue is recognized in the fiscal year received. State apportionment revenue is earned based upon criteria set forth from the Community Colleges Chancellor's Office and includes reporting of full-time equivalent students (FTES) attendance. The corresponding apportionment revenue is recognized in the period the FTES are generated. Revenue from Federal and State grants and entitlements are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements may include time and/or purpose requirements.

Operating expenses are costs incurred to provide instructional services including support costs, auxiliary services, and depreciation of capital assets. All other expenses not meeting this definition are reported as nonoperating. Expenses are recorded on the accrual basis as they are incurred, when goods are received, or services are rendered.

The District reports are based on all applicable GASB pronouncements, as well as applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements. The District has not elected to apply FASB pronouncements after that date.

The financial statements are presented in accordance with the reporting model as prescribed in GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, as amended by GASB Statements No. 37, No. 38, and No. 39. The business-type activities model followed by the District requires the following components of the District's financial statements:

- Management's Discussion and Analysis
- Basic Financial Statements for the District as a whole including:
 - Statements of Net Position - Primary Government
 - Statements of Revenues, Expenses, and Changes in Net Position - Primary Government
 - Statements of Cash Flows - Primary Government
 - Financial Statements for the Fiduciary Funds including:
 - Statements of Fiduciary Net Position
 - Statements of Changes in Fiduciary Net Position
- Notes to the Financial Statements

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be unrestricted cash on hand, demand deposits, and short-term unrestricted investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include unrestricted cash with county treasury balances for purposes of the Statement of Cash Flows. Restricted cash and cash equivalents represent balances restricted by external sources such as grants and contracts or specifically restricted for the repayment of capital debt.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Investments

Investments held at June 30, 2015, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in County and State investment pools are determined by the program sponsor.

Restricted Assets

Restricted assets arise when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets represent investments required by debt covenants to be set aside by the District for the purpose of satisfying certain requirements of the bonded debt issuance.

Accounts Receivable

Accounts receivable include amounts due from the Federal, State and/or local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. Accounts receivable also consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff, the majority of each residing in the State of California. All material receivables are considered fully collectible.

Prepaid Expenses

Prepaid expenses represent payments made to vendors and others for services that will benefit periods beyond June 30, 2015.

Inventories

Inventories consist of bookstore merchandise and supplies held for resale to the students and faculty of the colleges. Inventories are stated at the lower of cost or market on an average basis. The cost is recorded as an expense as the inventory is consumed.

Capital Assets and Depreciation

Capital assets are long-lived assets of the District as a whole and include land, construction in progress, buildings, leasehold improvements, and equipment. The District maintains an initial unit cost capitalization threshold of \$1,000 and an estimated useful life greater than one year. Assets are recorded at historical cost, or estimated historical cost, when purchased or constructed. The District does not possess any infrastructure. Donated capital assets are recorded at estimated fair market value at the date of donation. Improvements to buildings and land that significantly increase the value or extend the useful life of the asset are capitalized; the costs of routine maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are charged as an operating expense in the year in which the expense was incurred. Major outlays for capital improvements are capitalized as construction in progress as the projects are constructed.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Depreciation of capital assets is computed and recorded utilizing the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 50 years; improvements, 10 to 15 years; equipment, 3 to 8 years; vehicles, 3 years.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the entity-wide financial statements.

Debt Issuance Costs, Premiums, and Discounts

Debt premiums and discounts, as well as issuance costs related to prepaid insurance costs, are amortized over the life of the bonds using the straight-line method.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District reports deferred outflows of resources for the deferred charges on the refunding of general obligation bonds and current year pension contributions.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows of resources for the difference between projected and actual earnings on pension plan investments specific to the net pension liability and for the unamortized amount on net change in proportionate share of net pension liability.

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions and pension expense, information about the fiduciary net position of the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) plan for schools (the Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalSTRS and CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Member contributions are recognized in the period in which they are earned. Investments are reported at fair value.

Compensated Absences

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the entity-wide financial statements. The amounts have been recorded in the fund from which the employees, who have accumulated the leave, are paid. The District also participates in "load-banking" with eligible academic employees whereby the employee may teach extra courses in one period in exchange for time off in another period.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Sick leave is accumulated without limit for each employee based upon negotiated contracts. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, retirement credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Retirement credit for unused sick leave is applicable to all academic employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full time.

Unearned Revenue

Unearned revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed from the combined balance sheet and revenue is recognized. Unearned revenue includes (1) amounts received for tuition and fees prior to the end of the fiscal year that are related to the subsequent fiscal year and (2) amounts received from Federal and State grants received before the eligibility requirements are met.

Noncurrent Liabilities

Noncurrent liabilities include bonds and notes payable, compensated absences, claims payable, loan banking, OPEB obligations, and the aggregate net pension obligation with maturities greater than one year.

Net Position

GASB Statements No. 34 and No. 35 report equity as "Net Position" and represent the difference between assets and liabilities. The net position is classified according to imposed restrictions or availability of assets for satisfaction of District obligations according to the following net position categories:

Net Investment in Capital Assets consists of capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. To the extent debt has been incurred, but not yet expended for capital assets, such accounts are not included as a component net investment in capital assets.

Restricted: Net position is reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted by the District, or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

Unrestricted: Net position that is not subject to externally imposed constraints. Unrestricted net position may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

When both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first and the unrestricted resources when they are needed. The entity-wide financial statements report \$67,444,585 of restricted net position.

State Apportionments

Certain current year apportionments from the State are based on financial and statistical information of the previous year. Any corrections due to the recalculation of the apportionment are made in February of the subsequent year. When known and measurable, these recalculations and corrections are accrued in the year in which the FTES are generated.

Property Taxes

Secured property taxes attach as an enforceable lien on property as of January 1. The County Assessor is responsible for assessment of all taxable real property. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Orange bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

The voters of the District passed a General Obligation Bond in November 2002 for the acquisition, construction, and remodeling of certain District property. As a result of the passage of the Bond, property taxes are assessed on the property within the District specifically for the repayment of the debt incurred. The taxes are assessed, billed, and collected as noted above and remitted to the District when collected.

Board of Governors Grants (BOGG) and Fee Waivers

Student tuition and fee revenue is reported net of allowances and fee waivers approved by the Board of Governors through BOGG fee waivers in the Statement of Revenues, Expenses, and Changes in Net Position. Scholarship discounts and allowances represent the difference between stated charges for enrollment fees and the amount that is paid by students or third parties making payments on the students' behalf. To the extent that fee waivers have been used to satisfy tuition and fee charges, the District has recorded a scholarship discount and allowance.

Federal Financial Assistance Programs

The District participates in federally funded Pell Grants, SEOG Grants, Federal Work-Study, and Stafford Loan programs, as well as other programs funded by the Federal government. Financial aid to students is either reported as operating expenses or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. These programs are audited in accordance with the Single Audit Act Amendments of 1996, and the U.S. Office of Management and Budget's revised Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and the related *Compliance Supplement*.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Interfund Activity

Interfund transfers and interfund receivables and payables are eliminated during the consolidation process in the Primary Government and Fiduciary Funds' financial statements, respectively.

Change in Accounting Principles

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by State and local governments for pensions. It also improves information provided by State and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this Statement.

The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of State and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Employers are classified in one of the following categories for purposes of this Statement:

- Single employers are those whose employees are provided with defined benefit pensions through single-employer pension plans—pension plans in which pensions are provided to the employees of only one employer (as defined in this Statement).
- Agent employers are those whose employees are provided with defined benefit pensions through agent multiple-employer pension plans—pension plans in which plan assets are pooled for investment purposes, but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.
- Cost-sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans—pension plans in which the pension obligations to the employees of more than one employer are pooled, and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a nonemployer entity has a legal requirement to make contributions directly to a pension plan.

The District has implemented the Provisions of this Statement for the year ended June 30, 2015.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an Amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a State or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Statement No. 68 requires a State or local government employer (or nonemployer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a State or local government employer or nonemployer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement No. 68 requires that the government recognize its contribution as a deferred outflow of resources. In addition, Statement No. 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a State or local government employer or nonemployer contributing entity that arise from other types of events. At transition to Statement No. 68, if it is not practical for an employer or nonemployer contributing entity to determine the amounts of *all* deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement No. 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or nonemployer contributing entity's beginning net position and expense in the initial period of implementation.

This Statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The District has implemented the Provisions of this Statement for the year ended June 30, 2015.

As the result of implementing GASB Statement No. 68, the District has restated the beginning net position in the government-wide Statement of Net Position and Statement of Fiduciary Net Position, effectively decreasing net position as of July 1, 2014, by \$144,281,710 and \$469,356, respectively. The decreases result from recognizing the net pension liability, net of related deferred outflows of resources.

New Accounting Pronouncements

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of State and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68 for pension plans and pensions that are within their respective scopes.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

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The requirements of this Statement extend the approach to accounting and financial reporting established in Statement No. 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement No. 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement No. 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.

This Statement also clarifies the application of certain provisions of Statements No. 67 and No. 68 with regard to the following issues:

- Information that is required to be presented as notes to the ten-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported.
- Accounting and financial reporting for separately financed specific liabilities of individual employers and nonemployer contributing entities for defined benefit pensions.
- Timing of employer recognition of revenue for the support of nonemployer contributing entities not in a special funding situation.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of State and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*.

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

The scope of this Statement includes OPEB plans—defined benefit and defined contribution—administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. The primary objective of this Statement is to improve accounting and financial reporting by State and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by State and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of State and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of State and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier implementation is permitted.

NOTE 3 - DEPOSITS AND INVESTMENTS

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Investment in County Treasury - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section (ECS) 41001). The fair value of the District's investment in the pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

Investment in the State Investment Pool - The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in the pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on the amortized cost basis.

General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

Authorized Under Debt Agreements

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements rather than the general provisions of the California Government Code. These provisions allow for the acquisition of investment agreements with maturities of up to 30 years.

Summary of Deposits and Investments

Deposits and investments as of June 30, 2015, consist of the following:

Primary government	\$ 249,082,818
Fiduciary funds	3,444,842
Total Deposits and Investments	<u>\$ 252,527,660</u>
Cash on hand and in banks	\$ 8,115,808
Cash in revolving	216,000
Investments	244,195,852
Total Deposits and Investments	<u>\$ 252,527,660</u>

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the Orange County Treasury Investment Pool and LAIF investment pools.

Specific Identification

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investment by maturity:

Investment Type	Carrying Value	Fair Value	Maturity Date
Orange County Treasury Investment Pool	\$ 244,044,936	\$ 244,194,993	370*
Local Agency Investment Fund (LAIF)	150,916	150,916	239*
Total	<u>\$ 244,195,852</u>	<u>\$ 244,345,909</u>	

* Weighted average days to maturity

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investments in the Orange County Treasury Investment Pool and LAIF are not required to be rated. The investment in LAIF has not been rated as of June 30, 2015. The District's investment in the Orange County Treasury Investment Pool was rated AAAm/AAm by Standard & Poor's Investor Service.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2015, the District had \$7,745,992 that was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2015, consisted primarily of intergovernmental grants, entitlements, interest, and other local sources.

The accounts receivable are as follows:

	Primary Government	Fiduciary Funds
Federal Government		
Categorical aid	\$ 4,610,815	\$ -
State Government		
Apportionment	482,094	-
Categorical aid	1,593,723	-
Lottery	2,493,746	-
Other State sources	432,781	-
Local Sources		
Interest	80,714	-
Other local sources	1,920,963	182,303
Total	<u>\$ 11,614,836</u>	<u>\$ 182,303</u>
Student loans receivable	<u>\$ 95,274</u>	<u>\$ -</u>

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 5 - INTERFUND TRANSACTIONS

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund activity within the governmental funds and fiduciary funds has been eliminated respectively in the consolidation process of the basic financial statements. Balances owing between the primary government and the fiduciary funds are not eliminated in the consolidation process. As of June 30, 2015, the amounts owed between the primary government and the fiduciary funds were \$121,587 and \$532,209, respectively.

Interfund Operating Transfers

Operating transfers between funds of the District are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use restricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Operating transfers within the funds of the District have been eliminated in the consolidation process. Transfers between the primary government and the fiduciary funds are not eliminated in the consolidation process. During the 2015 fiscal year, there was \$2,500 transferred to the primary government from the fiduciary funds. The amount transferred to the fiduciary funds from the primary government amounted to \$461,945.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the District for the fiscal year ended June 30, 2015, was as follows:

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Capital Assets Not Being Depreciated				
Land	\$ 89,964,360	\$ -	\$ -	\$ 89,964,360
Construction in progress	85,214,922	20,084,871	85,765,460	19,534,333
Total Capital Assets Not Being Depreciated	<u>175,179,282</u>	<u>20,084,871</u>	<u>85,765,460</u>	<u>109,498,693</u>
Capital Assets Being Depreciated				
Buildings and improvements	301,391,888	88,975,502	-	390,367,390
Furniture and equipment	71,603,657	3,602,762	1,522,783	73,683,636
Total Capital Assets Being Depreciated	<u>372,995,545</u>	<u>92,578,264</u>	<u>1,522,783</u>	<u>464,051,026</u>
Total Capital Assets	<u>548,174,827</u>	<u>112,663,135</u>	<u>87,288,243</u>	<u>573,549,719</u>
Less Accumulated Depreciation				
Buildings and improvements	79,721,466	11,284,290	-	91,005,756
Furniture and equipment	56,234,053	4,741,630	1,519,348	59,456,335
Total Accumulated Depreciation	<u>135,955,519</u>	<u>16,025,920</u>	<u>1,519,348</u>	<u>150,462,091</u>
Net Capital Assets	<u>\$ 412,219,308</u>	<u>\$ 96,637,215</u>	<u>\$ 85,768,895</u>	<u>\$ 423,087,628</u>

Depreciation expense for the year was \$16,025,920.

Interest expense on capital related debt for the year ended June 30, 2015, was \$19,674,832. Of this amount, \$372,560 was capitalized.

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2015, consisted of the following:

	Primary Government	Fiduciary Funds
Accrued payroll	\$ 6,008,976	\$ 93,571
Apportionment	764,852	-
Construction	999,003	-
State Categorical Pass-Through	1,202,236	-
Other	6,649,561	74,927
Total	<u>\$ 15,624,628</u>	<u>\$ 168,498</u>

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

NOTE 8 - UNEARNED REVENUE

Unearned revenue at June 30, 2015, consisted of the following:

	Primary Government
Federal financial assistance	\$ 173,436
State categorical aid	17,017,205
Other state sources	1,197,679
Enrollment fees	1,965,305
Other local	458,873
Total	<u>\$ 20,812,498</u>

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the 2015 fiscal year consisted of the following:

	<u>Primary Government</u>				
	Balance Beginning of Year (as restated)	Additions	Deductions	Balance End of Year	Due in One Year
Bonds and Notes Payable					
General Obligation bonds - 2002 election					
General Obligation - 2005, Series B	\$ 52,208,802	\$ 844,493	\$ 2,730,000	\$ 50,323,295	\$ 3,150,000
General Obligation - 2006, Series C	58,973,046	4,056,884	760,000	62,269,930	615,000
2005 General Obligation Refunding Bonds	49,925,000	-	2,235,000	47,690,000	2,865,000
2011 General Obligation Refunding Bonds	10,260,000	-	45,000	10,215,000	2,970,000
2012 General Obligation Refunding Bonds	62,985,000	-	2,660,000	60,325,000	-
2013 General Obligation Refunding Bonds	77,905,000	-	-	77,905,000	-
General Obligation bonds - 2012 election					
General Obligation - 2014, Series A	-	70,585,000	-	70,585,000	6,345,000
Unamortized bond premium	35,443,745	6,075,775	4,120,885	37,398,635	-
Total Bonds and Notes Payable	347,700,593	81,562,152	12,550,885	416,711,860	15,945,000
Other Liabilities					
Claims payable	400,000	-	-	400,000	-
Compensated absences	5,183,352	-	90,981	5,092,371	743,051
Load banking	4,263,375	118,699	-	4,382,074	-
Net OPEB obligation	52,369,709	7,567,524	6,297,550	53,639,683	-
Aggregate pension obligation	153,530,952	-	33,991,486	119,539,466	-
Total Other Liabilities	215,747,388	7,686,223	40,380,017	183,053,594	743,051
Total Long-Term Obligations	\$ 563,447,981	\$ 89,248,375	\$ 52,930,902	\$ 599,765,454	\$ 16,688,051

Fiduciary Funds

	Balance Beginning of Year (as restated)	Additions	Deductions	Balance End of Year	Due in One Year
Aggregate pension obligation	\$ 512,311	\$ -	\$ 114,865	\$ 397,446	\$ -

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Description of Debt

Payments on the general obligation bonds are to be made by the Bond Interest and Redemption Fund with local property tax collections. The net pension obligation, compensated absences, load banking, and net OPEB obligation will be paid by the fund for which the employee worked. The claims liability will be paid by the Internal Service Fund.

On November 5, 2002, the District voters authorized the issuance and sale of general obligation bonds totaling \$337,000,000. Proceeds from the sale of the bonds will be used to finance the construction, acquisition, and modernization of certain property and District facilities.

On February 23, 2005, the District issued General Obligation Bonds, Election of 2002, Series B of \$111,175,000 of current interest and \$8,824,867 of capital appreciation bonds. Interest ranges from 3.0 percent to 5.13 percent payable semi-annually on March 1 and September 1.

On September 21, 2006, the District issued General Obligation Bonds, Election 2002, Series C of \$86,255,000 of current interest bonds and \$34,619,329 of capital appreciation bonds. Interest ranges from 3.38 percent to 5.0 percent payable semi-annually on March 1 and September 1.

On August 4, 2005, the District issued 2005 General Obligation Refunding Bonds of \$49,925,000 of current interest bonds and \$3,634,299 of capital appreciation bonds. Interest rates range from 3.57 percent to 5.25 percent payable semi-annually on March 1 and September 1. The refunding proceeds were issued to pay off a portion of the Series A General Obligation Bonds.

On November 30, 2011, the District issued \$10,300,000 2011 General Obligation Refunding Bonds. Interest rates range from 2.0 percent to 5.0 percent payable semi-annually on March 1 and September 1. The net proceeds from the issuance provided for the partial refunding of \$10,495,000 of the 2003 Series A bonds.

On March 1, 2012, the District issued \$62,985,000 2012 General Obligation Refunding Bonds. Interest rates range from 2.0 percent to 5.0 percent payable semi-annually on March 1 and September 1. The net proceeds from the issuance provided for the partial refunding of \$5,860,000 of the 2003 Series A bonds and \$59,495,000 of the 2005 Series B bonds.

This was an advance refunding resulting in a legal defeasance of the previously issued bonds. An Escrow Fund was established to fund continued payment of the principal and interest as it becomes due. The Escrow Agreement provides for the redemption of the remaining outstanding principal of the Series A bonds on September 1, 2013, and the Series B bonds on September 1, 2015.

Because the transaction qualified as a legal defeasance, the obligation for the defeased bonds has been removed from the District's financial statements. The economic gain calculated as the sum of the project fund proceeds and the net present value savings is approximately \$4,400,000.

On January 17, 2013, the District issued \$79,130,000 2013 General Obligation Refunding Bonds. Interest rates range from 1.75 percent to 5.0 percent payable semi-annually on March 1 and September 1. The net proceeds from the issuance provided for the partial refunding of \$2,650,000 of the 2005 Series B bonds and \$80,100,000 of the 2006 Series C bonds.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

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This was an advance refunding resulting in a legal defeasance of the previously issued bonds. An Escrow Fund was established to fund continued payment of the principal and interest as it becomes due. The Escrow Agreement provides for the redemption of the remaining outstanding principal of the Series B and Series C bonds on September 1, 2016.

Because the transaction qualified as a legal defeasance, the obligation for the defeased bonds has been removed from the District's financial statements. The economic gain calculated as the sum of the project fund proceeds and the net present value savings is approximately \$3,400,000.

On November 6, 2012, the District voters authorized the issuance and sale of general obligation bonds totaling \$198,000,000. Proceeds from the sale of the bonds will be used to finance the construction, acquisition, and modernization of certain property and District facilities. On October 14, 2014, the District issued General Obligation Bonds, Election 2012, Series 2014A of \$70,585,000 of current interest bonds. Interest ranges from 2.0 percent to 5.0 percent, payable semi-annually on February 1 and August 1.

Debt Maturity

General Obligation Bonds

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2014	Issued	Accreted Interest Addition	Redeemed	Bonds Outstanding June 30, 2015
2/23/2005	9/1/2029	3.00-5.13%	\$ 119,999,867	\$ 52,208,802	\$ -	\$ 844,493	\$ 2,730,000	\$ 50,323,295
8/4/2005	9/1/2023	3.57-5.25%	53,559,299	49,925,000	-	-	2,235,000	47,690,000
9/21/2006	9/1/2031	3.38-5.00%	120,874,329	58,973,046	-	4,056,884	760,000	62,269,930
11/30/2011	9/1/2022	2.00-5.00%	10,300,000	10,260,000	-	-	45,000	10,215,000
3/1/2012	9/1/2027	2.00-5.00%	62,985,000	62,985,000	-	-	2,660,000	60,325,000
1/17/2013	9/1/2026	1.75-5.00%	79,130,000	77,905,000	-	-	-	77,905,000
10/16/14	8/1/2044	2.00-5.00%	70,585,000	-	70,585,000	-	-	70,585,000
				<u>\$ 312,256,848</u>	<u>\$ 70,585,000</u>	<u>\$ 4,901,377</u>	<u>\$ 8,430,000</u>	<u>\$ 379,313,225</u>

Annual requirements for all bonds payable are as follows:

Election 2002, Series B

Fiscal Year	Principal (Including accreted interest to date)	Accreted Interest	Current Interest to Maturity	Total
2016	\$ 3,133,392	\$ 16,608	\$ 1,894,050	\$ 5,044,050
2017	1,227,748	82,252	1,847,050	3,157,050
2018	902,554	107,446	1,847,050	2,857,050
2019	965,995	169,005	1,847,050	2,982,050
2020	1,011,070	238,930	1,847,050	3,097,050
2021-2025	5,767,013	2,612,987	9,235,250	17,615,250
2026-2030	37,315,523	884,477	7,425,356	45,625,356
Total	<u>\$ 50,323,295</u>	<u>\$ 4,111,705</u>	<u>\$ 25,942,856</u>	<u>\$ 80,377,856</u>

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Election 2002, Series C

<u>Fiscal Year</u>	<u>Principal (Including accreted interest to date)</u>	<u>Accreted Interest</u>	<u>Current Interest to Maturity</u>	<u>Total</u>
2016	\$ 615,000	\$ -	\$ 60,234	\$ 675,234
2017	1,155,000	-	24,544	1,179,544
2018	-	-	-	-
2019	-	-	-	-
2020	-	-	-	-
2021-2025	1,703,986	916,014	-	2,620,000
2026-2030	26,461,573	22,573,427	-	49,035,000
2031-2032	32,334,371	35,640,629	-	67,975,000
Total	<u>\$ 62,269,930</u>	<u>\$ 59,130,070</u>	<u>\$ 84,778</u>	<u>\$ 121,484,778</u>

2005 Refunding Bond

<u>Fiscal Year</u>	<u>Principal</u>	<u>Current Interest to Maturity</u>	<u>Total</u>
2016	\$ 2,865,000	\$ 2,369,338	\$ 5,234,338
2017	5,670,000	2,148,875	7,818,875
2018	5,995,000	1,842,669	7,837,669
2019	5,560,000	1,567,150	7,127,150
2020	6,295,000	1,283,756	7,578,756
2021-2025	21,305,000	1,901,156	23,206,156
Total	<u>\$ 47,690,000</u>	<u>\$ 11,112,944</u>	<u>\$ 58,802,944</u>

2011 Refunding Bond

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2016	\$ 2,970,000	\$ 355,300	\$ 3,325,300
2017	25,000	310,375	335,375
2018	25,000	309,625	334,625
2019	2,525,000	271,375	2,796,375
2020	-	233,500	233,500
2021-2025	4,670,000	583,750	5,253,750
Total	<u>\$ 10,215,000</u>	<u>\$ 2,063,925</u>	<u>\$ 12,278,925</u>

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

2012 Refunding Bond

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2016	\$ -	\$ 2,791,350	\$ 2,791,350
2017	-	2,791,350	2,791,350
2018	2,925,000	2,732,850	5,657,850
2019	3,245,000	2,609,450	5,854,450
2020	3,550,000	2,473,550	6,023,550
2021-2025	23,260,000	9,741,150	33,001,150
2026-2028	27,345,000	2,242,625	29,587,625
Total	<u>\$ 60,325,000</u>	<u>\$ 25,382,325</u>	<u>\$ 85,707,325</u>

2013 Refunding Bond

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2016	\$ -	\$ 3,524,563	\$ 3,524,563
2017	2,430,000	3,488,113	5,918,113
2018	1,925,000	3,425,256	5,350,256
2019	830,000	3,382,250	4,212,250
2020	3,500,000	3,295,650	6,795,650
2021-2025	36,360,000	13,366,525	49,726,525
2026-2027	32,860,000	1,678,750	34,538,750
Total	<u>\$ 77,905,000</u>	<u>\$ 32,161,107</u>	<u>\$ 110,066,107</u>

Election 2012, Series A

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2016	\$ 6,345,000	\$ 2,788,712	\$ 9,133,712
2017	7,215,000	2,580,962	9,795,962
2018	6,230,000	2,312,062	8,542,062
2019	90,000	2,185,213	2,275,213
2020	175,000	2,178,588	2,353,588
2021-2025	2,190,000	10,644,813	12,834,813
2026-2030	5,050,000	9,759,813	14,809,813
2031-2035	8,855,000	8,312,681	17,167,681
2036-2040	13,755,000	5,980,375	19,735,375
2041-2045	20,680,000	2,186,600	22,866,600
Total	<u>\$ 70,585,000</u>	<u>\$ 48,929,819</u>	<u>\$ 119,514,819</u>

Compensated Absences

At June 30, 2015, the liability for compensated absences was \$5,092,371 of which \$743,051 is considered current.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Load Banking

The load banking obligation for the District at June 30, 2015, amounted to \$4,382,074.

Other Postemployment Benefits Obligation

The District's annual required contribution for the year ended June 30, 2015, was \$8,350,167, and contributions made by the District during the year were \$6,297,550. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$2,487,561 and \$(3,270,204), respectively, which resulted in an increase to the net OPEB obligation of \$1,269,974. As of June 30, 2015, the net OPEB obligation was \$53,639,683. See Note 10 for additional information regarding the OPEB obligation and the postemployment benefits plan.

Aggregate Net Pension Obligation

The District's aggregate net pension obligation for the year ended June 30, 2015, was \$119,539,466. See Note 12 for additional information regarding the District's net pension liability and the employee retirement plans.

NOTE 10 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

The District provides postemployment health care benefits for retired employees in accordance with negotiated contracts with the various bargaining units of the District.

Plan Description

The District currently provides retiree and dependent medical coverage to eligible academic and classified employees. Persons retiring with more than 10 years, but less than 15 years, of service are eligible to receive medical benefits on a self-pay basis. Persons retiring with 15 years or more service are eligible to receive medical benefits up to \$24,909 for 2015. Currently, 331 employees meet those eligibility requirements.

For employees whose first paid date of contract services is on or after May 31, 1986, and who subsequently qualify for the foregoing 15 year retiree service benefit, the District will pay its portion of the insurance premium until the retiree reaches age 70. After age 70, such retirees may continue coverage at their own expense.

Contribution Information

The contribution requirements of Plan members and the District are established and may be amended by the District and the District's bargaining units. The required contribution is based on projected pay-as-you-go financing requirements with an additional amount to prefund benefits as determined annually through agreements between the District and the bargaining units. For fiscal year 2014-2015, the District contributed \$8,350,167, consisting of \$6,297,550 for premiums and \$2,052,617 to set aside for the future liability.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the payments of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding costs) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation to the Plan:

Annual required contribution	\$ 8,350,167
Interest on net OPEB obligation	2,487,561
Adjustment to annual required contribution	(3,270,204)
Annual OPEB cost (expense)	<u>7,567,524</u>
Contributions made	<u>(6,297,550)</u>
Increase in net OPEB obligation	1,269,974
Net OPEB obligation, beginning of year	<u>52,369,709</u>
Net OPEB obligation, end of year	<u><u>\$ 53,639,683</u></u>

Trend Information

Trend information for the annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the past three years is as follows:

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2013	\$ 8,894,629	\$ 5,879,433	66%	\$ 50,275,965
2014	7,717,191	5,623,447	73%	52,369,709
2015	7,567,524	6,297,550	83%	53,639,683

Funding Status and Funding Progress

The funded status of the OPEB Plan as of June 30, 2015, is as follows:

Actuarial Accrued Liability (AAL)	\$ 82,058,965
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u><u>\$ 82,058,965</u></u>
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0%
Covered Payroll	<u><u>\$ 104,223,062</u></u>
UAAL as Percentage of Covered Payroll	<u><u>78.73%</u></u>

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

The above noted actuarial accrued liability was based on the April 25, 2014, actuarial valuation. Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Other Postemployment Benefits Funding Progress, presented as required supplementary information, follows the notes to the financial statements and presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the employer and the Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial values of assets, consistent with the long-term perspective of the calculations.

In the April 25, 2014, actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 4.75 percent investment rate of return. Healthcare cost trend rate was four percent. The UAAL is being amortized using the level percentage of payroll method. The remaining amortization period at June 30, 2015, was 17 years.

NOTE 11 - RISK MANAGEMENT

Insurance Coverages

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters; and medical claims. During the fiscal year, the District maintained an Internal Service Fund to account for and finance its uninsured risks of loss. The District is insured through ASCIP for workers' compensation and property and liability claims. The Self-Insurance Fund provides coverage for up to a maximum of \$25,000 for each general liability claim and \$10,000 for each property damage claim. Workers' compensation is 100 percent insured coverage. The Self-Insurance Fund is subject to assessments from the SAWCXII JPA for workers' compensation claims for prior years (early 1990s) when the District was a member. The District participates in JPAs to provide excess insurance coverage above the self-insured retention level for workers' compensation and property and liability claims. Settled claims have not exceeded the coverage provided by the JPA in any of the past three fiscal years.

Funding of the Internal Service Fund is based on estimates of the amounts needed to pay prior year claims and current year premiums. Workers' compensation premiums are charged to the respective funds which are covered by the current year policy. Property and liability premiums are paid by the General Fund.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

At June 30, 2015, the District accrued the claims liability in accordance with GASB Statement No. 10 for claims that occurred when the District was self-insured. The present value of the liability is estimated at \$400,000. Changes in the reported liability are shown below:

	Workers' Compensation	Property and Liability
Liability Balance, July 1, 2013	\$ 400,000	\$ -
Claims and changes in estimates	544	80,140
Claims payments	(544)	(80,140)
Liability Balance, June 30, 2014	400,000	-
Claims and changes in estimates	173,460	125,183
Claims payments	(173,460)	(125,183)
Liability Balance, June 30, 2015	\$ 400,000	\$ -
Assets Available to Pay Claims at June 30, 2015	<u>\$ 7,125,442</u>	<u>\$ 3,047,717</u>

Joint Powers Authority Risk Pools

The District participates in two Joint Powers Agreement (JPA) entities: the Alliance of Schools for Cooperative Insurance Programs (ASCIP) and the Schools Excess Liability Fund (SELF).

ASCIP arranges for and provides property, liability, and workers' compensation insurance for its member school districts. The District pays a premium commensurate with the level of coverage requested.

SELF arranges for and provides a self-funded or additional insurance for excess liability for approximately 1,100 public educational agencies. SELF is governed by a board of 16 elected voting members, elected alternates, and two ex-officio members. The board controls the operations of SELF, including selection of management and approval of operating budgets, independent of any influence by the members beyond their representation on the board. Each member pays an annual contribution based upon that calculated by SELF's board of directors and shares surpluses and deficits proportionately to its participation in SELF.

ASCIP is governed by a board consisting of a representative from each member district. The governing board controls the operations of its JPA, independent of any influence by Rancho Santiago Community College District beyond the District's representation on the governing boards.

Each JPA is independently accountable for its fiscal matters. Budgets are not subject to any approval other than that of the respective governing boards. Member districts share surpluses and deficits proportionately to their participation in the JPA.

The relationships between Rancho Santiago Community College District and the JPAs are such that none of the JPAs is a component unit of the District for financial reporting purposes.

Separate financial statements for each JPA may be obtained from the respective entity.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of CalSTRS and classified employees are members of CalPERS.

The District implemented GASB Statements No. 68 and No. 71 for the fiscal year ended June 30, 2015. As a result, the District reported its proportionate share of the net pension liabilities, pension expense, and deferred inflow of resources for each of the above plans and a deferred outflow of resources for each of the above plans as follows:

<u>Primary Government</u>				
<u>Pension Plan</u>	<u>Proportionate Share of Net Pension Liability</u>	<u>Deferred Outflows of Resources</u>	<u>Proportionate Share of Deferred Inflows of Resources</u>	<u>Proportionate Share of Pension Expense</u>
CalSTRS	\$ 79,176,119	\$ 5,629,088	\$ 19,496,969	\$ 6,835,456
CalPERS	40,363,347	4,516,472	15,133,103	3,587,477
Total	<u>\$ 119,539,466</u>	<u>\$ 10,145,560</u>	<u>\$ 34,630,072</u>	<u>\$ 10,422,933</u>

<u>Fiduciary Funds</u>				
<u>Pension Plan</u>	<u>Proportionate Share of Net Pension Liability</u>	<u>Deferred Outflows of Resources</u>	<u>Proportionate Share of Deferred Inflows of Resources</u>	<u>Proportionate Share of Pension Expense</u>
CalPERS - Associated				
Students Misc. Plan	<u>\$ 397,446</u>	<u>\$ 19,467</u>	<u>\$ 109,110</u>	<u>\$ 17,733</u>

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the State Teachers' Retirement Plan (STRP) administered by CalSTRS. STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2013, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at:
<http://www.calstrs.com/member-publications>.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Benefits Provided

The STRP provides retirement, disability, and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age, and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program, and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the State is the sponsor of the STRP and obligor of the trust. In addition, the State is both an employer and nonemployer contributing entity to the STRP.

The District contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2015, are summarized as follows:

	STRP Defined Benefit Program	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	8.15%	8.15%
Required employer contribution rate	8.88%	8.88%
Required State contribution rate	5.95%	5.95%

Contributions

Required member, District, and State of California contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2015, are presented above, and the District's total contributions were \$5,629,088.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

Total net pension liability, including State share:

District's proportionate share of net pension liability	\$ 79,176,119
State's proportionate share of net pension liability associated with the District	47,809,959
Total	<u>\$ 126,986,078</u>

The net pension liability was measured as of June 30, 2014. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating college districts and the State, actuarially determined. At June 30, 2015, the District's proportion was 0.1355 percent.

For the year ended June 30, 2015, the District recognized pension expense of \$6,835,456. In addition, the District recognized revenue and pension expense of \$4,127,543 for support provided by the state. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 5,629,088	\$ -
Difference between projected and actual earnings on pension plan investments	-	19,496,969
Total	<u>\$ 5,629,088</u>	<u>\$ 19,496,969</u>

The deferred outflow of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

The deferred inflow of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Amortization
2016	\$ 4,874,242
2017	4,874,242
2018	4,874,242
2019	4,874,243
Total	<u>\$ 19,496,969</u>

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2013, and rolling forward the total pension liability to June 30, 2014. The financial reporting actuarial valuation as of June 30, 2013, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2013
Measurement date	June 30, 2014
Experience study	July 1, 2006 through June 30, 2010
Actuarial cost method	Entry age normal
Discount rate	7.60%
Investment rate of return	7.60%
Consumer price inflation	3.00%
Wage growth	3.75%

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant. Based on the model for CalSTRS consulting actuary investment practice, a best estimate range was determined assuming the portfolio is re-balanced annually and that the annual returns are normally distributed and independent from year to year to develop expected percentile for the long-term distribution of annualized returns. The assumed asset allocation is based on board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	4.50%
Private equity	12%	6.20%
Real estate	15%	4.35%
Inflation sensitive	5%	3.20%
Fixed income	20%	0.20%
Cash/liquidity	1%	0.00%

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Discount Rate

The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments, and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.60%)	\$ 123,414,862
Current discount rate (7.60%)	79,176,119
1% increase (8.60%)	42,289,046

California Public Employees' Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) and the Associated Students Miscellaneous Plan under CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plans regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2013, annual actuarial valuation report, Schools Pool Actuarial Valuation, and the Miscellaneous Risk Pool Actuarial Valuation, 2013. These reports and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor, and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or age 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2015, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	11.771%	11.771%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contribution rates are expressed as a percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2015, are presented above, and the total District contributions for CalPERS and CalPERS Miscellaneous Risk Pool were \$4,516,472 and \$19,467, respectively.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2015, the District reported net pension liabilities for its proportionate share of the CalPERS and CalPERS Miscellaneous Risk Pool net pension liability totaling \$40,363,347 and \$397,446, respectively. The net pension liability was measured as of June 30, 2014. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating college districts, actuarially determined. At June 30, 2015, the District's proportion was 0.3555 percent for CalPERS and 0.00639 percent for CalPERS Miscellaneous Risk Pool.

For the year ended June 30, 2015, the District recognized pension expense of \$3,587,477 for CalPERS and \$17,733 for CalPERS Miscellaneous Risk Pool. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>CalPERS</u>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 4,516,472	\$ -
Net change in proportionate share of net pension liability	-	1,263,805
Difference between projected and actual earnings on pension plan investments	-	13,869,298
Total	<u>\$ 4,516,472</u>	<u>\$ 15,133,103</u>

	<u>CalPERS Miscellaneous Risk Pool</u>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 19,467	\$ -
Difference between projected and actual earnings on pension plan investments	-	109,110
Total	<u>\$ 19,467</u>	<u>\$ 109,110</u>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

The deferred inflows of resources related to the net change in proportionate share of the net pension liability will be amortized over the Expected Average Remaining Service Lives (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the 2013-2014 measurement period is 3.9 years and the pension expense will be recognized as follows:

Year Ended June 30,	Amortization
2016	\$ 421,268
2017	421,268
2018	421,269
Total	<u>\$ 1,263,805</u>

The deferred inflows of resources related to the differences between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

CalPERS

Year Ended June 30,	Amortization
2016	\$ 3,467,325
2017	3,467,325
2018	3,467,325
2019	3,467,323
Total	<u>\$ 13,869,298</u>

CalPERS Miscellaneous Risk Pool

Year Ended June 30,	Amortization
2016	\$ 27,278
2017	27,278
2018	27,278
2019	27,276
Total	<u>\$ 109,110</u>

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2013, and rolling forward the total pension liability to June 30, 2014. The financial reporting actuarial valuation as of June 30, 2013, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2013
Measurement date	June 30, 2014
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.50%
Investment rate of return	7.50%
Consumer price inflation	2.75%
Wage growth	3.00%

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include five years of projected ongoing mortality improvement using Scale AA published by the Society of Actuaries.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations, as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	5.25%
Global fixed income	19%	0.99%
Private equity	12%	6.83%
Real estate	11%	4.50%
Inflation sensitive	6%	0.45%
Infrastructure and Forestland	3%	4.50%
Liquidity	2%	-0.55%

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

CalPERS

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.50%)	\$ 70,806,525
Current discount rate (7.50%)	40,363,347
1% increase (8.50%)	14,925,003

CalPERS Miscellaneous Risk Pool

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.50%)	\$ 660,903
Current discount rate (7.50%)	397,446
1% increase (8.50%)	178,801

On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS for the fiscal year ended June 30, 2015, which amounted to \$3,186,927 (5.679 percent) of salaries subject to CalSTRS. Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. No contributions were made for CalPERS for the year ended June 30, 2015. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. These amounts have been reflected in the basic financial statements as a component of nonoperating revenue and employee benefit expense.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

Public Agency Retirement System (PARS)

Plan Description

The Public Agency Retirement System is a defined contribution plan qualifying under §401(a) and §501 of the Internal Revenue Code. The plan covers part-time, seasonal and temporary employees, and employees not covered by §3121(b)(7)(F) of the Internal Revenue Code. The benefit provisions and contribution requirements of plan members and the District are established and may be amended by the PARS Board of Trustees.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Grants

The District receives financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2015.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2015.

Operating Leases

The District has entered into various operating leases for buildings and equipment with lease terms in excess of one year. None of these agreements contain purchase options. Future minimum lease payments under these agreements are as follows:

<u>Year Ending June 30,</u>	<u>Lease Payment</u>
2016	\$ 170,418
2017	76,150
2018	19,212
2019	10,498
2020	3,900
Total	<u><u>\$ 280,178</u></u>

Rental expenditures for the year ended June 30, 2015, amounted to \$626,741.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

Construction Commitments

As of June 30, 2015, the District had the following commitments with respect to the unfinished capital projects:

	Spent to Date	Remaining Construction Commitment	Expected Date of Completion
Santa Ana College			
Perimeter Site Improvements	\$ 6,483,615	\$ 116,503	2016
Dunlap Hall Renovation	13,837,328	4,459,876	2016
Johnson Student Center	177,508	2,390,260	2020
Central Plant Infrastructure	4,151,537	6,481,224	2017
17th and Bristol Street Parking Lot	112,078	50,873	2016
Science Center	228,035	4,416,004	2019
Chavez Hall Renovation	92,867	68,002	2017
Temporary Village Phase 2	5,795	32,205	2016
Santiago Canyon College			
Orange Education Center Building Certification	684,592	1,889,778	2018
Building U Portables Certification	25,965	62,565	2016
	<u>\$ 25,799,320</u>	<u>\$ 19,967,290</u>	

The projects are funded through general obligation bonds.

NOTE 14 - RESTATEMENT OF PRIOR YEAR NET POSITION

The District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in the current year. As a result, the effect on the current fiscal year is as follows:

Primary Government

Net Position - Beginning	\$ 169,417,252
Restatement of deferred outflows of resources for implementation of GASB Statement No. 68	9,249,242
Restatement of long-term obligations for implementation of GASB Statement No. 68	(153,530,952)
Net Position - Beginning, as restated	<u>\$ 25,135,542</u>

Fiduciary Funds

Net Assets - Beginning	\$ 1,823,973
Restatement of deferred outflows of resources for implementation of GASB Statement No. 68	42,955
Restatement of long-term obligations for implementation of GASB Statement No. 68	(512,311)
Net Assets - Beginning, as restated	<u>\$ 1,354,617</u>

REQUIRED SUPPLEMENTARY INFORMATION

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING PROGRESS FOR THE YEAR ENDED JUNE 30, 2015

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age Cost Method Used (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
February 1, 2010	\$ -	\$ 81,480,837	\$ 81,480,837	0%	\$ 104,537,352	78%
July 17, 2012	-	92,397,836	92,397,836	0%	100,628,030	92%
April 25, 2014	-	82,058,965	82,058,965	0%	104,223,062	79%

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR THE YEAR ENDED JUNE 30, 2015

CalSTRS

District's proportion of the net pension liability	<u>0.1355%</u>
District's proportionate share of the net pension liability	\$ 79,176,119
State's proportionate share of the net pension liability associated with the District	<u>47,809,959</u>
Total	<u><u>\$ 126,986,078</u></u>
District's covered - employee payroll	<u>\$ 60,347,491</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>131.20%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>77%</u>

CalPERS

District's proportion of the net pension liability	<u>0.3555%</u>
District's proportionate share of the net pension liability	<u>\$ 40,363,347</u>
District's covered - employee payroll	<u>\$ 37,323,667</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>108.14%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>83%</u>

CalPERS - MISCELLANEOUS RISK POOL

District's proportion of the net pension liability	<u>0.00639%</u>
District's proportionate share of the net pension liability	<u>\$ 397,446</u>
District's covered - employee payroll*	<u>N/A</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>N/A</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>83%</u>

* The plan has no active members, and, therefore, no covered-employee payroll.

Note : In the future, as data become available, ten years of information will be presented.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS FOR THE YEAR ENDED JUNE 30, 2015

CalSTRS

Contractually required contribution	\$ 5,629,088
Contributions in relation to the contractually required contribution	5,629,088
Contribution deficiency (excess)	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 63,390,631</u>
Contributions as a percentage of covered - employee payroll	<u>8.88%</u>

CalPERS

Contractually required contribution	\$ 4,516,472
Contributions in relation to the contractually required contribution	4,516,472
Contribution deficiency (excess)	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 38,369,484</u>
Contributions as a percentage of covered - employee payroll	<u>11.77%</u>

CalPERS

Contractually required contribution	\$ 19,467
Contributions in relation to the contractually required contribution	19,467
Contribution deficiency (excess)	<u>\$ -</u>
District's covered - employee payroll*	<u>N/A</u>
Contributions as a percentage of covered - employee payroll	<u>N/A</u>

* The plan has no active members, and, therefore, no covered-employee payroll.

Note : In the future, as data become available, ten years of information will be presented.

SUPPLEMENTARY INFORMATION

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

DISTRICT ORGANIZATION

JUNE 30, 2015

Rancho Santiago Community College District was established in 1971 and is comprised of an area of approximately 193 square miles located in Orange County. There were no changes in the boundaries of the District during the current year. The District currently operates two colleges: Santa Ana College and Santiago Canyon College, as well as the Orange County Regional Sheriff's Training Academy, the Digital Media Center, and two continuing education centers: Orange Education Center and Centennial Education Center. The District's colleges are accredited by the Accrediting Commission for Community and Junior Colleges, Western Association of Schools and Colleges, which is one of six regional associations that accredit public and private schools, colleges, and universities in the United States.

BOARD OF TRUSTEES

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Lawrence R. "Larry" Labrado	President	2018
Claudia C. Alvarez	Vice President	2016
John R. Hanna	Clerk	2018
Arianna P. Barrios	Member	2016
Jose Solorio	Member	2016
Nelida Mendoza Yanez	Member	2016
Phillip E. Yarbrough	Member	2018
Raquel Maniquez	Student Trustee	2016

DISTRICT EXECUTIVE OFFICERS

Raúl Rodríguez, Ph.D.	Chancellor
Erlinda Martinez, Ed.D.	President of Santa Ana College
John Weispfenning, Ph.D.	President of Santiago Canyon College
John Didion	Executive Vice Chancellor of Human Resources/ Educational Services
Peter Hardash	Vice Chancellor, Business Operations and Fiscal Services

See accompanying note to supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2015

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Student Financial Assistance Cluster			
Federal Pell Grant Program	84.063		\$ 21,337,708
Federal Pell Administrative Allowance	84.063		16,044
Federal Supplemental Educational Opportunity Grant (FSEOG)	84.007		470,100
Federal Work-Study Program	84.033		357,896
Federal Perkins Loans	84.038		11,938
Federal Direct Loan	84.268		1,761,285
Total Student Financial Assistance Cluster			<u>23,954,971</u>
TRIO Cluster			
Student Support Services	84.042A		267,805
Talent Search	84.044A		310,910
Upward Bound	84.047A		313,475
Upward Bound - Math and Science	84.047M		253,677
Upward Bound - Veterans	84.047V		222,180
Total TRIO Cluster			<u>1,368,047</u>
HIGHER EDUCATION ACT			
Migrant Education - College Assistance Migrant Program	84.149A		414,946
Title V - Strengthening Hispanic Serving Institutions	84.031S		647,605
Title III - Hispanic Serving Institution - STEM	84.031C		120,608
Title III - Hispanic Serving Institution - ENGAGE	84.031C		1,034,326
Gear Up IV Program	84.334A		606,943
Child Care Access Means Parents in School (CCAMPIS)	84.335A		135,607
ADULT EDUCATION AND FAMILY LITERACY ACT (AEFLA)			
Passed through from California Department of Education			
Adult Education and Family Literacy Act (AEFLA)	84.002A	13971	266,360
English Literacy and Civics Education Grant (EL Civics)	84.002A	14508	1,179,657
English as a Second Language	84.002A	13978	1,726,081
Secondary Education	84.002A	14109	588,729
CAREER AND TECHNICAL EDUCATION (CTE) ACT			
Passed through from California Community Colleges			
Chancellor's Office (CCCCO)			
CTE - CTE Transitions	84.048A	99-TP-046	81,452
Title I, Part C	84.048	99-C01-046	1,361,780
LAOC Regional Consortium (Title I, Part B)	84.048	99-C01-047	370,000

[1] Pass-Through Entity Identifying Number is unavailable.

[2] Research and Development Grants

See accompanying note to supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, Continued FOR THE YEAR ENDED JUNE 30, 2015

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF HEALTH and HUMAN SERVICES			
Early Head Start	93.600		\$ 1,755,770
Passed through from California Community Colleges Chancellor's Office (CCCCO)			
Temporary Assistance to Needy Families (TANF)	93.558	[1]	96,904
Passed through from Chabot-Las Positas Community College District			
California Early Childhood Mentor Program	93.575	CN140097	1,000
Passed through from Yosemite Community College District			
Child Development Training Consortium	93.575	14-15-2885	24,500
Passed through from Foundation for California Community Colleges (FCCC)			
YESS - Youth Empowerment Strategies for Success	93.674	[1]	22,500
U.S. DEPARTMENT OF LABOR			
WIA Cluster			
Passed through from California Community Colleges Chancellor's Office (CCCCO)			
Bridge to Engineering	17.268	[1]	132,436
WIA Title I, Youth CASP	17.259	[1]	19,850
Total WIA Cluster			<u>152,286</u>
U.S. DEPARTMENT OF AGRICULTURE			
Partnership for Transfer Success in USDA Career Majors	10.223		41,100
Passed through from California Department of Education (CDE)			
Child and Adult Care Food Program	10.558	[1]	350,362
NATIONAL SCIENCE FOUNDATION^[2]			
Passed through from University of California, Irvine			
NSF - IUSE	47.076	2014-3117	5,491
Passed through from California State University, Fullerton			
NSF - FULL-MT2	47.076	1035315	15,768
U.S. SMALL BUSINESS ADMINISTRATION			
Passed through from California State University, Fullerton			
California Small Business Development Center (SBDC)	59.037	S-5871-RSCCD	630,473

[1] Pass-Through Entity Identifying Number is unavailable.

[2] Research and Development Grants

See accompanying note to supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, Continued FOR THE YEAR ENDED JUNE 30, 2015

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF HOMELAND SECURITY			
Passed through from California Governor's Office of Emergency Services (CAL OES) Local Hazard Mitigation Plan	97.047	2014-00005	\$ 32,698
Total Federal Program Expenditures			<u>\$ 36,985,964</u>
Student Financial Aid Loan Programs			
Loans Outstanding Rancho Santiago Community College District had the following loan balance outstanding as of June 30, 2015: Perkins Program			<u>\$ 92,554</u>

[1] Pass-Through Entity Identifying Number is unavailable.

[2] Research and Development Grants

See accompanying note to supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF STATE AWARDS FOR THE YEAR ENDED JUNE 30, 2015

Program	Program Entitlements		
	Current Year	Prior Year	Total Entitlement
GENERAL FUND			
AB86 - Adult Education	\$ -	\$ 300,959	\$ 300,959
Basic Skills	728,221	1,233,051	1,961,272
CA Math Diagnostic Testing	27,077	-	27,077
Cal Grant	2,143,876	14,173	2,158,049
California Child Signature Program (CSP)	-	27,500	27,500
CalWorks	415,534	-	415,534
Capacity Building Grant - EduPlay	-	50,279	50,279
Career Technical Education Community Collaborative IV	-	57,413	57,413
Career Technical Education Workforce Initiative V	-	56,835	56,835
Career Technical Education Enhancement Fund	16,695,271	-	16,695,271
Career Technical Education Pathway	13,360	-	13,360
Child Development Center	3,353,026	21	3,353,047
Child Development - Facilities Renovation Repair	100,000	64,515	164,515
Cooperative Agencies Resources for Education (CARE)	78,058	-	78,058
Disabled Student Program and Services (DSPS)	2,075,174	26,394	2,101,568
Econ Dev Program: BEC Statewide, BEC, and YEP	653,075	324,491	977,566
Econ Dev Program: BEC Statewide, BEC HUBS, and CITD	977,400	430,972	1,408,372
Econ Dev Program: Enrollment Growth	192,287	59,771	252,058
Equal Opportunity Employment	11,670	1,152	12,822
Extended Opportunity Program and Services (EOPS)	1,545,432	-	1,545,432
Student Success and Support Program - Non Credit	1,714,976	42,299	1,757,275
Student Success and Support Program - Credit	4,856,165	367,299	5,223,464
Student Equity	1,711,247	-	1,711,247
Orange County Career Pathway Partnership	305,203	-	305,203
Orange County Teacher Pathway Partnership	6,000,000	-	6,000,000
Proposition 39 - Clean Energy Workforce	108,878	-	108,878
Santa Ana Middle College High School	99,000	-	99,000
Santiago Canyon College MESA CCP	50,500	-	50,500
Song Brown Family Physician Training Act	29,500	-	29,500
Student Financial Aid Administration	991,490	-	991,490
Student Mental Health	33,500	-	33,500
TAFY - Transition Aged Foster Youth	10,000	-	10,000
Telecommunication Technology Infrastructure Program (TTIP)	-	39,245	39,245
Subtotal			

See accompanying note to supplementary information.

Program Revenues					
Cash Received	Accounts Receivable	Unearned Revenue	Total Revenue	Program Expenditures	
\$ 268,353	\$ -	\$ 21,897	\$ 246,456	\$ 246,456	
728,221	-	728,221	1,233,051	1,233,051	
-	26,798	-	26,798	26,798	
2,138,617	19,432	-	2,158,049	2,158,049	
-	27,497	-	27,497	27,497	
415,534	-	24,353	391,181	391,181	
16,278	18,254	-	34,532	34,532	
57,413	-	-	57,413	57,413	
56,835	-	-	56,835	56,835	
15,025,744	5,149	10,474,888	4,556,005	4,556,005	
-	3,736	-	3,736	3,736	
3,156,786	132,499	-	3,289,285	3,289,285	
89,515	-	6,954	82,561	82,561	
74,855	-	-	74,855	74,855	
2,101,568	-	166,406	1,935,162	1,935,162	
334,172	378,750	48,075	664,847	664,847	
309,000	839,011	-	1,148,011	1,148,011	
252,058	-	-	252,058	252,058	
12,822	-	3,558	9,264	9,264	
1,540,128	-	9,618	1,530,510	1,530,510	
1,757,275	-	162,929	1,594,346	1,594,346	
5,223,464	-	1,628,950	3,594,514	3,594,514	
1,711,247	-	1,137,213	574,034	574,034	
305,203	-	285,589	19,614	19,614	
3,000,000	-	2,293,761	706,239	706,239	
-	46,273	-	46,273	46,273	
43,465	34,658	-	78,123	78,123	
30,300	19,769	-	50,069	50,069	
114,791	29,344	-	144,135	144,135	
991,490	-	-	991,490	991,490	
19,350	8,345	-	27,695	27,695	
5,418	4,208	-	9,626	9,626	
39,245	-	24,793	14,452	14,452	
\$ 39,819,147	\$ 1,593,723	\$ 17,017,205	\$ 25,628,716	\$ 25,628,716	

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT ANNUAL (ACTUAL) ATTENDANCE AS OF JUNE 30, 2015

	Reported Data	Audit Adjustments	Audited Data
CATEGORIES			
A. Summer Intersession (Summer 2014 only)			
1. Noncredit*	547.39	-	547.39
2. Credit	1,535.58	-	1,535.58
B. Summer Intersession (Summer 2015 - Prior to July 1, 2015)			
1. Noncredit*	192.37	-	192.37
2. Credit	42.45	-	42.45
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	14,511.70	-	14,511.70
(b) Daily Census Contact Hours	1,475.54	-	1,475.54
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit*	5,802.54	-	5,802.54
(b) Credit	3,389.31	-	3,389.31
3. Alternative Attendance Accounting Procedure			
(a) Weekly Census Contact Hours	750.32	-	750.32
(b) Daily Census Contact Hours	660.88	-	660.88
(c) Noncredit Independent Study/Distance Education Courses	-	-	-
D. Total FTES	28,908.08	-	28,908.08
SUPPLEMENTAL INFORMATION			
In-Service Training Courses (FTES)	2,302.01	-	2,302.01
Basic Skills Courses and Immigrant Education			
1. Noncredit*	5,284.53	-	5,284.53
2. Credit	1,003.88	-	1,003.88

* Including Career Development and College Preparation (CDCP) FTES

See accompanying note to supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF *EDUCATION CODE* SECTION 84362 (50 PERCENT LAW) CALCULATION FOR THE YEAR ENDED JUNE 30, 2015

		ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
	Object/TOP Codes	Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
<u>Academic Salaries</u>							
Instructional Salaries							
Contract or Regular	1100	\$ 24,572,146	\$ -	\$ 24,572,146	\$ 24,572,146	\$ -	\$ 24,572,146
Other	1300	22,662,453	-	22,662,453	22,662,453	-	22,662,453
Total Instructional Salaries		47,234,599	-	47,234,599	47,234,599	-	47,234,599
Noninstructional Salaries							
Contract or Regular	1200	-	-	-	12,819,465	-	12,819,465
Other	1400	-	-	-	1,213,416	-	1,213,416
Total Noninstructional Salaries		-	-	-	14,032,881	-	14,032,881
Total Academic Salaries		47,234,599	-	47,234,599	61,267,480	-	61,267,480
<u>Classified Salaries</u>							
Noninstructional Salaries							
Regular Status	2100	-	-	-	23,176,545	-	23,176,545
Other	2300	-	-	-	988,265	-	988,265
Total Noninstructional Salaries		-	-	-	24,164,810	-	24,164,810
Instructional Aides							
Regular Status	2200	926,184	-	926,184	926,184	-	926,184
Other	2400	1,758,343	-	1,758,343	1,758,343	-	1,758,343
Total Instructional Aides		2,684,527	-	2,684,527	2,684,527	-	2,684,527
Total Classified Salaries		2,684,527	-	2,684,527	26,849,337	-	26,849,337
Employee Benefits	3000	14,774,592	-	14,774,592	34,886,822	-	34,886,822
Supplies and Material	4000	-	-	-	649,264	-	649,264
Other Operating Expenses	5000	3,502,156	-	3,502,156	15,535,136	-	15,535,136
Equipment Replacement	6420	-	-	-	-	-	-
Total Expenditures							
Prior to Exclusions		68,195,874	-	68,195,874	139,188,039	-	139,188,039

See accompanying note to supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF *EDUCATION CODE* SECTION 84362 (50 PERCENT LAW) CALCULATION, Continued
FOR THE YEAR ENDED JUNE 30, 2015**

		ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
	Object/TOP Codes	Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
<u>Exclusions</u>							
Activities to Exclude							
Instructional Staff - Retirees' Benefits and Retirement Incentives	5900	\$ 2,604,024	\$ -	\$ 2,604,024	\$ 2,604,024	\$ -	\$ 2,604,024
Student Health Services Above Amount Collected	6441	-	-	-	-	-	-
Student Transportation	6491	-	-	-	-	-	-
Noninstructional Staff - Retirees' Benefits and Retirement Incentives	6740	-	-	-	3,693,526	-	3,693,526
Objects to Exclude							
Rents and Leases	5060	-	-	-	1,387,979	-	1,387,979
Lottery Expenditures							-
Academic Salaries	1000	-	-	-	-	-	-
Classified Salaries	2000	-	-	-	-	-	-
Employee Benefits	3000	-	-	-	-	-	-
Supplies and Materials	4000	-	-	-	-	-	-
Software	4100	-	-	-	-	-	-
Books, Magazines, and Periodicals	4200	-	-	-	-	-	-
Instructional Supplies and Materials	4300	-	-	-	-	-	-
Noninstructional Supplies and Materials	4400	-	-	-	-	-	-
Total Supplies and Materials		-	-	-	-	-	-

See accompanying note to supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF *EDUCATION CODE* SECTION 84362 (50 PERCENT LAW) CALCULATION, Continued FOR THE YEAR ENDED JUNE 30, 2015

	Object/TOP Codes	ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
		Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
Other Operating Expenses and Services	5000	\$ -	\$ -	\$ -	\$ 3,844,324	\$ -	\$ 3,844,324
Capital Outlay							
Library Books	6000	-	-	-	-	-	-
Equipment	6300	-	-	-	-	-	-
Equipment - Additional	6410	-	-	-	-	-	-
Equipment - Replacement	6420	-	-	-	-	-	-
Total Equipment		-	-	-	-	-	-
Total Capital Outlay							
Other Outgo	7000	-	-	-	-	-	-
Total Exclusions		2,604,024	-	2,604,024	11,529,853	-	11,529,853
Total for ECS 84362, 50 Percent Law		\$ 65,591,850	\$ -	\$ 65,591,850	\$ 127,658,186	\$ -	\$ 127,658,186
Percent of CEE (Instructional Salary Cost/Total CEE)		51.38%		51.38%	100.00%		100.00%
50% of Current Expense of Education					\$ 63,829,093		\$ 63,829,093

See accompanying note to supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311)
WITH FUND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

There were no adjustments to the Annual Financial and Budget Report (CCFS-311) which required reconciliation to the audited financial statements at June 30, 2015.

See accompanying note to supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

**PROPOSITION 30 EDUCATION PROTECTION ACT (EPA) EXPENDITURE REPORT
FOR THE YEAR ENDED JUNE 30, 2015**

Activity Classification	Object Code			Unrestricted	
EPA Proceeds:	8630				\$ 24,593,717
Activity Classification	Activity Code	Salaries and Benefits (Obj 1000-3000)	Operating Expenses (Obj 4000-5000)	Capital Outlay (Obj 6000)	Total
Instructional Activities	1000-5900				
		\$ 24,593,717			\$ 24,593,717
					-
					-
					-
					-
					-
Total Expenditures for EPA		\$ 24,593,717	-	-	\$ 24,593,717
Revenues Less Expenditures					\$ -

See accompanying note to supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION

JUNE 30, 2015

Amounts Reported for Governmental Activities in the Statement

Total Fund Balance, Retained Earnings, and Due to Student Groups

General Funds	\$ 28,701,945
Special Revenue Funds	4,352,202
Capital Project Funds	105,690,186
Debt Service Funds	27,757,365
Internal Service Funds	(2,308,433)
Fiduciary Funds	<u>4,664,964</u>

Total Fund Balance, Retained Earnings, and Due to Student Groups

\$ 168,858,229

Capital assets used in governmental activities are not financial resources and,

The cost of capital assets is

573,549,719

Accumulated depreciation is

(150,462,091)

423,087,628

Amounts held in trust on behalf of others (Trust and Agency Funds)

(3,382,139)

Governmental funds report deferred cost of refunding associated with the issuance of debt when first issued, whereas the amounts are deferred and amortized in the Statement of Activities. Deferred charges on refunding at year end amounted to:

6,487,265

Contributions to pension plans made subsequent to the measurement date were recognized as expenditures on the modified accrual basis, but are not recognized on the accrual basis.

10,145,560

The net change in proportionate share of net pension liability as of the measurement date is not recognized as an expenditure under the modified accrual basis, but is recognized on the accrual basis over the expected remaining service life of members receiving pension benefits.

(1,263,805)

Difference between projected and actual earnings on pension plan investments are not recognized on the modified accrual basis, but are recognized on the accrual basis as an adjustment to pension expense.

(33,366,267)

In governmental funds, unmatured interest on long-term debt is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term debt is recognized when it is incurred.

(4,911,453)

See accompanying note to supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION, Continued JUNE 30, 2015

Long-term liabilities at year end consist of:

Bonds payable	\$ 385,274,079
Claims payable	400,000
Net OPEB obligation	53,639,683
Load banking	4,382,074
Compensated absences	5,092,371
Aggregate net pension liability	119,539,466
Less load banking already recorded in funds	(4,382,074)
Less compensated absences already recorded in funds	(743,051)
Less claims payable already recorded in funds	(400,000)
Less net OPEB obligation already recorded in funds	(54,905,887)

In addition, the District issued "capital appreciation" general obligation bonds. The accretion of interest on those bonds to date is the following:

31,437,781

Total Net Position

\$ (539,334,442)
<u>\$ 26,320,576</u>

See accompanying note to supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2015

NOTE 1 - PURPOSE OF SCHEDULES

District Organization

This schedule provides information about the District's governing board members and administration members.

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenses, and Changes in Net Position - Primary Government and the related expenditures reported on the Schedule of Expenditures of Federal Awards.

Description	CFDA Number	Amount
Total Federal Revenues from the Statement of Revenues, Expenses, and Changes in Net Position:		\$ 36,977,535
Federal Perkins Loans	84.038	11,938
Federal Supplemental Educational Opportunity Grant (FSEOG)	84.007	(3,509)
Total Expenditures of Federal Awards		<u>\$ 36,985,964</u>

Subrecipients

Of the Federal expenditures presented in the schedule, the District provided Federal awards to subrecipients as follows:

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Amount Provided to Subrecipients
Title III - Hispanic Serving Institution - STEM	84.031C	\$ 608,162
Early Head Start	93.600	182,847
Gear Up IV Program	84.334A	367,696
		<u>\$ 1,158,705</u>

Schedule of Expenditures of State Awards

The accompanying Schedule of Expenditures of State Awards includes the State grant activity of the District and is presented on the modified accrual basis of accounting. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The information in this schedule is presented to comply with reporting requirements of the California State Chancellor's Office.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2015

Schedule of Workload Measures for State General Apportionment Annual (Actual) Attendance

FTES is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds, including restricted categorical funding, are made to community college districts. This schedule provides information regarding the annual attendance measurements of students throughout the District.

Reconciliation of *Education Code* Section 84362 (50 Percent Law) Calculation

ECS 84362 requires the District to expend a minimum of 50 percent of the unrestricted General Fund monies on salaries of classroom instructors. This is reported annually to the State Chancellor's Office. This schedule provides a reconciliation of the amount reported to the State Chancellor's Office and the impact of any audit adjustments and/or corrections noted during the audit.

Reconciliation of Annual Financial and Budget Report (CCFS-311) With Fund Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Form CCFS-311 to the District's internal fund financial statements.

Proposition 30 Education Protection Act (EPA) Expenditure Report

This schedule provides the District's summary of receipts and uses of the monies received through the EPA.

Reconciliation of Governmental Funds to the Statement of Net Position

This schedule provides a reconciliation of the adjustments necessary to bring the District's internal fund financial statements, prepared on a modified accrual basis, to the entity-wide full accrual basis financial statements required under GASB Statements No. 34 and No. 35 business-type activities reporting model.

INDEPENDENT AUDITOR'S REPORTS



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees
Rancho Santiago Community College District
Santa Ana, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the business-type activities and the aggregate remaining fund information of Rancho Santiago Community College District (the District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 3, 2015.

Emphasis of Matter - Change in Accounting Principles

As discussed in Notes 2 and 14 to the financial statements, in 2015, the District adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinich, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 3, 2015



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Board of Trustees
Rancho Santiago Community College District
Santa Ana, California

Report on Compliance for Each Major Federal Program

We have audited Rancho Santiago Community College District's (the District) compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the year ended June 30, 2015. The District's major Federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Varrinck, Tine, Day & Co., LLP

Rancho Cucamonga, California
December 3, 2015



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Trustees
Rancho Santiago Community College District
Santa Ana, California

Report on State Compliance

We have audited Rancho Santiago Community College District's (the District) compliance with the types of compliance requirements as identified in the California Community Colleges Chancellor's Office *District Audit Manual* issued in August 2014 that could have a direct and material effect on each of the District's programs as noted below for the year ended June 30, 2015.

Management's Responsibility

Management is responsible for compliance with the requirements identified in the California Community Colleges Chancellor's Office *District Audit Manual* issued in August 2014.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the standards and procedures identified in the California Community Colleges Chancellor's Office *District Audit Manual*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above could have a material effect on the applicable programs noted below. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

Unmodified Opinion for Each of the Programs

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to the programs noted below that were audited for the year ended June 30, 2015.

In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with State laws and regulations applicable to the following:

Section 421	Salaries of Classroom Instructors (50 Percent Law)
Section 423	Apportionment for Instructional Service Agreements/Contracts
Section 424	State General Apportionment Funding System
Section 425	Residency Determination for Credit Courses
Section 426	Students Actively Enrolled
Section 427	Concurrent Enrollment of K-12 Students in Community College Credit Courses
Section 430	Schedule Maintenance Program
Section 431	Gann Limit Calculation
Section 435	Open Enrollment
Section 438	Student Fees – Health Fees and Use of Health Fee Funds
Section 439	Proposition 39 Clean Energy
Section 440	Interession Extension Programs
Section 474	Extended Opportunity Programs and Services (EOPS) and Cooperative Agencies Resources for Education (CARE)
Section 475	Disabled Student Programs and Services (DSPS)
Section 479	To Be Arranged (TBA) Hours
Section 490	Proposition 1D State Bond Funded Projects
Section 491	Proposition 30 Education Protection Account Funds

The District does not offer any Interession Extension Programs; therefore, the compliance tests within this section were not applicable.

The District did not receive any funding through Proposition 1D State Bond Funded Projects; therefore, the compliance tests within this section were not applicable.

Vavrinich, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 3, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

SUMMARY OF AUDITOR'S RESULTS FOR THE YEAR ENDED JUNE 30, 2015

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>None reported</u>
Type of auditor's report issued on compliance for major Federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?	<u>No</u>

Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.007, 84.033, 84.038, 84.063, 84.268	Student Financial Assistance Cluster
84.002A	Adult Education and Family Literacy Act (AEFLA)
84.002A	English Literacy and Civics Education Grant (EL Civics)
84.002A	English as a Second Language
84.002A	Secondary Education
93.600	Early Head Start

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 390,930</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Type of auditor's report issued on compliance for State programs:	<u>Unmodified</u>
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RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

**FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2015**

None reported.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

None reported.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

None reported.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2015

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's Schedule of Findings and Questioned Costs.

Financial Statement Findings

None reported.

Federal Awards Findings

None reported.

State Awards Findings

None reported.